



September 14, 2011

Certified Mail / Return Receipt Requested

Mr. Daniel S. Sullivan
Alaska Department of Natural Resources
550 West 7th Avenue, Suite 800
Anchorage, AK 99501-3560

RECEIVED

SEP 21 2011

DIVISION OF
OIL AND GAS

**Subject: Qugruk Unit Application
North Slope, Alaska**

Dear Commissioner Sullivan,

In accordance with 11 AAC 83.306, Repsol E&P USA Inc. ("Repsol"), 70 & 148, LLC ("70") and GMT Exploration Company LLC ("GMT") jointly propose the formation and establishment of the Qugruk Unit and hereby petition the Department of Natural Resources (the "Department") to approve the Qugruk Unit Agreement. One hundred percent (100%) of the Subsurface Estate within the proposed Unit Area is held by either the State of Alaska or Arctic Slope Regional Corp. and is jointly controlled by Repsol, 70, GMT, Pioneer Natural Resources Alaska, Inc. ("PNR"), Anadarko Petroleum Co. ("AP"), ConocoPhillips Alaska, Inc. ("CP"), Paul L. Craig ("PC"), and Peter G. Zamarello ("PZ").

Repsol is nominated as Unit Operator under both the Qugruk Unit Agreement and the Qugruk Unit Operating Agreement.

Formation of the Qugruk Unit – Criteria and Justification

11 AAC 83.303 prescribes the criteria that the Department shall utilize in its evaluation of a proposed Unit. A new Unit shall be approved if it; 1) promotes the conservation of natural resources, 2) promotes the prevention of both environmental and economic waste, and 3) provides for the protection of all parties, including the State. We respectfully submit that the proposed Qugruk Unit satisfies these criteria while providing for the most comprehensive evaluation of the resources while preventing economic waste. Unitized developments better enable optimum facility and well placement which minimize duplicate facilities and the environmental impacts and maximizes the efficient production of resources. These benefits are difficult to achieve through lease-by-lease developments.

Proposed Unit Area

The lands which are included within the proposed Qugruk Unit Area are described upon Exhibit "A" to the Unit Agreement and depicted upon Exhibit "B" of this agreement. All or a portion of the following State of Alaska Oil and Gas Leases are included within the proposed Unit Area:

Repsol E&P USA Inc.

Tract 1 ADL – 391382
Tract 2 ADL – 391383
Tract 3 ADL – 391384
Tract 4 ADL – 391385
Tract 5 ADL – 391386
Tract 6 ADL – 390852
Tract 7 ADL – 391565
Tract 8 ADL – 391389
Tract 9 ADL – 391390
Tract 10 ADL – 391391
Tract 11 ADL – 391395
Tract 12 ADL – 391396
Tract 13 ADL – 391566
Tract 14 ADL – 391303
Tract 15 ADL – 391387
Tract 16 ADL – 391392
Tract 17 ADL – 391393
Tract 18 ADL – 391160
Tract 19 ADL – 391397
Tract 20 ADL – 391398
Tract 21 ADL – 391399
Tract 22 ADL – 391400
Tract 23 ADL – 391162
Tract 24 ADL – 391161
Tract 25 ADL – 391394
Tract 26 ADL – 391458
Tract 27 ADL – 391457
Tract 28 ADL – 391388
Tract 29 ADL – 391459
Tract 30 ADL – 391460
Tract 31 ADL – 391461
Tract 32 ADL – 391456
Tract 33 ADL – 391401
Tract 34 ADL – 391163
Tract 35 ADL – 391164
Tract 36 ADL – 391304
Tract 37 ADL – 391451
Tract 38 ADL – 391450
Tract 39 ADL – OPEN
Tract 40 ADL – OPEN
Tract 41 ADL – 391449
Tract 42 ADL – 391452
Tract 43 ADL – 391453
Tract 44 ADL – 391454
Tract 45 ADL – 391455

Tract 46 ADL -391322
Tract 47 ADL -391553
Tract 48 ADL -391445
Tract 49 ADL -391320

Technical Information in Support of Application

Pertinent geologic, geophysical, engineering and well data and interpretation of said data is attached to this application to directly support the technical basis for both the establishment of the Qugruk Unit and the proposed initial Unit Area. This material is submitted pursuant to 11 AAC 83.306(4). This material is CONFIDENTIAL and we ask that the Department maintain it as CONFIDENTIAL in accordance with the provision of AS 38.035(a)(9). Upon review of the submitted material your staff may determine that additional information and direct interaction with Repsol's and 70's technical staffs may be helpful and necessary to allow an efficient review of the project and the proposed Unit. Repsol and 70 will take whatever steps necessary in order to maintain a good working relationship with the Department. Repsol and 70 will cooperate with all reasonable requests for additional data as timely as possible and we will take the necessary steps to maintain a strong, cooperative, relationship with the Department in order to make certain the resources associated with aforementioned leasehold receive the opportunity to be evaluated and if commercial, developed.

Qugruk Unit Agreement and the Proper Parties to the Unit

The proposed Qugruk Unit Agreement is attached to this application. The form is identical to the Department's model Unit Agreement for *(March 2011)* and no modifications have been made. The Unit Agreement has been executed by all Repsol, 70 and GMT which collectively own 91.52% of the Working Interest within the proposed Unit Area. We have offered PNR, AP, CP, PC, and PZ the right to join the Unit and are awaiting their response.

11 AAC 83.328(a) provides a definition for "proper parties" to be included in a unit and the governing Unit Agreement. The regulations provide, "The record owners of any right, title or interest in the oil and gas reservoirs or potential hydrocarbon accumulations to be included in the unit are the proper parties to the unit agreement." All of the proper parties to the Qugruk Unit are identified in the Qugruk Unit Agreement and each of these parties has been, or will be, invited to join the proposed unit.

An affidavit is attached to this application which describes the efforts taken to invite and obtain the joinder of all proper parties to the Qugruk Unit Agreement.

Initial Plan of Exploration

The initial Plan of Exploration is attached to this application in the form of Exhibit "G" to the Qugruk Unit Agreement. The plan is for a term of one (1) year and provides for the drilling of a minimum of four exploration/appraisal wells and the evaluation of all available geologic and geophysical data which relates to the Unit Area.

Further Repsol, 70 and GMT as parties who already have executed the Unit Agreement and Unit Operating Agreement are willing to commit that any working interest owner who joins the Unit will contribute their proportionate share of capital in order to establish a substantial cash bond ("Bond") in favor of the DNR. The Bond will remain with DNR until the first exploration well of the Unit is spud at which time the DNR will release said Bond to Repsol as operator of the Unit.

The Unit working interest owners agree to having the Unit terminate if the first well is not drilled during the drilling season of 2011/2012.

Qugruk Unit Operating Agreement

The Qugruk Unit Operating Agreement is attached to this application for your information only, in accordance with the provisions of 11 AAC 83.306(2). Approval from the Department is not required or requested.

Proposed Effective Date

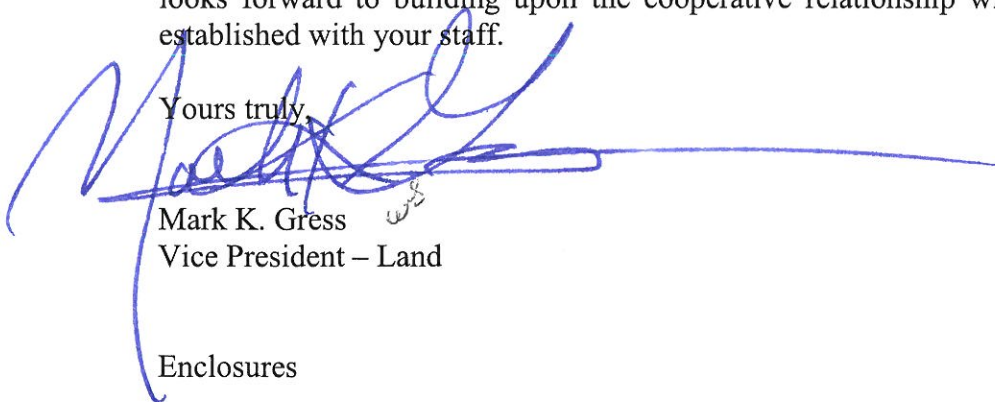
The parties request that the effective date of the Department's approval of the Qugruk Unit be as early as conveniently possible.

Unit Application Copies and Fee

Three (3) copies of this application which include non-confidential associated documents and two (2) additional copies which include CONFIDENTIAL material that directly supports this application, are submitted as required by 11 AAC 83.321. Check number 1214 in the amount of \$5000.00 payable to the State of Alaska is attached as payment of the application fee prescribed by 11 AAC 05.010.

If you or your staff, have any questions on this application or should you require additional information, please do not hesitate to call Wanda Slocum (281) 297-1021 or myself at (281) 297-1785. We await your expeditious and favorable approval of this unit application and Repsol looks forward to building upon the cooperative relationship with the Department that 70 has established with your staff.

Yours truly,


Mark K. Gress
Vice President – Land

Enclosures